

SOUTH CAROLINA STATE UNIVERSITY
ORANGEBURG, SOUTH CAROLINA
STATE AUDITOR'S REPORT
JUNE 30, 2000

CONTENTS

	<u>EXHIBIT</u>	<u>PAGE</u>
I. <u>INDEPENDENT AUDITOR'S REPORT</u>		1
II. <u>BASIC FINANCIAL STATEMENTS</u>		
BALANCE SHEET – JUNE 30, 2000	A	3
STATEMENT OF CHANGES IN FUND BALANCES - FOR THE YEAR ENDED JUNE 30, 2000	B	5
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES – FOR THE YEAR ENDED JUNE 30, 2000	C	7
NOTES TO FINANCIAL STATEMENTS		9
III. <u>AUDITOR'S COMMENTS</u>		
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL		42
SECTION A – STATUS OF PRIOR FINDINGS		44
SECTION B – REPORTABLE CONDITIONS		
DISBURSEMENT VOUCHER PAYMENTS		45
LOAN FUNDS		45
PAYROLL PROCESSING PROCEDURES		
Insurance Deductions		46
Other Deduction Forms		47
Performance Evaluations		48
Payments to Employees Terminating Employment		48
Labor Distribution		49
Leave Liability		49
BANK RECONCILIATIONS		50
BOND RESOLUTION REQUIREMENT		51
AUXILIARY ENTERPRISES		52
MANAGEMENT'S RESPONSE		54

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT AUDITOR'S REPORT

November 9, 2000

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
South Carolina State University
Orangeburg, South Carolina

We have audited the accompanying basic financial statements of South Carolina State University as of June 30, 2000, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the accompanying basic financial statements of the University are intended to present the financial position, changes in fund balances, and current funds revenues, expenditures, and other changes of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of South Carolina State University, an institution of the State of South Carolina. These financial statements do not include other agencies, institutions, departments, funds, or component units of the State of South Carolina primary government.

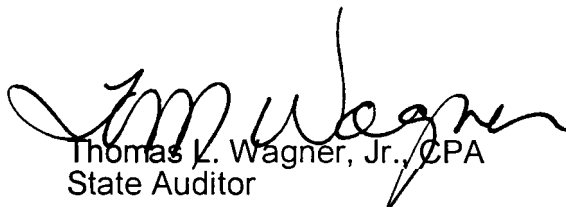
In our opinion the basic financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 2000, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
South Carolina State University
November 9, 2000

As discussed in Note 22, the University changed its method of accounting for its Intercollegiate Athletics program. Effective July 1, 1999, the University reclassified the Intercollegiate Athletics program from an auxiliary enterprise to education and general. In addition, the University's adoption of National Association of College and University Business Officers (NACUBO) Advisory Report 99-1, *Accounting and Reporting for Nongovernmental Grants and Contracts and Gifts*, NACUBO Advisory Report 99-6, *Reporting Safety and Security Expenses by Higher Education*, and NACUBO Advisory Report 99-7, *Accounting and Reporting for Capitalization of Software* affected the University accounting and reporting treatment of certain revenue and expenditure transactions.

These financial statements exclude the related entities described in Note 18 from the reporting entity because the University is not financially accountable for these entities. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which related entities that do not meet the financial accountability criteria would be included in the financial reporting entity.

As discussed in Note 23, certain errors in the application of accounting principles regarding student accounts receivables, deferred revenue, plant assets, and loan fund bad debt expense were discovered by management of the University during the current year. The changes have been accounted for as corrections of errors.


Thomas L. Wagner, Jr., CPA
State Auditor

BASIC FINANCIAL STATEMENTS

SOUTH CAROLINA STATE UNIVERSITY

Balance Sheet

June 30, 2000ASSETS**CURRENT FUNDS**

Unrestricted:

Cash and Cash Equivalents	
(Deficit) (Note 15)	\$ (381,435)
Accounts Receivable, Net (Note 13)	1,566,902
Inventories (Note 11)	554,935
Interest/Endowment Income Receivable	7,742
Prepaid Items	29,854
Other Receivables (Note 13)	80,658
Due from Restricted Current Fund (Note 12)	<u>3,014,280</u>
Total Unrestricted	<u><u>4,872,936</u></u>

Restricted:

Interest/Endowment Income Receivable	5,253
Grants Receivable - Federal	3,467,185
Grants Receivable - State	463,492
Grants Receivable - Nonfederal	1,129

Total Restricted	<u><u>3,937,059</u></u>
-------------------------	-------------------------

Total Current Funds	<u><u>\$ 8,809,995</u></u>
----------------------------	----------------------------

LOAN FUNDS

Cash and Cash Equivalents (Note 15)	\$ 217,765
Interest Receivable	2,336
Notes Receivable (Note 13):	
Perkins Loan Program	519,271
Student Loan Fund	995
African American Teacher Loan Program	920,553
Education Improvement Act Loan Program	<u>360,647</u>
Total Loan Funds	<u><u>\$ 2,021,567</u></u>

LIABILITIES AND FUND BALANCES**CURRENT FUNDS**

Unrestricted:

Accounts Payable	\$ 2,179,621
Accrued Payroll and Related Liabilities	584,276
Deferred Revenues	463,910
Accrued Annual Leave and Related Liabilities	2,499,036
Student Deposits	79,681
Fund Balance (Deficit)	(933,588)

Total Unrestricted	<u><u>4,872,936</u></u>
---------------------------	-------------------------

Restricted:

Accounts Payable	312,311
Accrued Payroll and Related Liabilities	66,239
Accrued Annual Leave and Related Liabilities	201,550
Due to Unrestricted Current Funds (Note 12)	3,014,280

Fund Balances:

Scholarships	245,396
Other Purposes	<u>97,283</u>

Total Restricted	<u><u>3,937,059</u></u>
-------------------------	-------------------------

Total Current Funds	<u><u>\$ 8,809,995</u></u>
----------------------------	----------------------------

LOAN FUNDS

Fund Balances:

Perkins Loan Fund	\$ 625,804
Donor Restricted	1,395,763

Total Loan Funds	<u><u>\$ 2,021,567</u></u>
-------------------------	----------------------------

SOUTH CAROLINA STATE UNIVERSITY

Balance Sheet
June 30, 2000

ASSETS

ENDOWMENT AND SIMILAR FUNDS

Cash and Cash Equivalents (Note 15)	\$	591,123
Interest Receivable		2,000
Investments (Note 15)		<u>104,094</u>
Total Endowment and Similar Funds	\$	<u>697,217</u>

PLANT FUNDS

Unexpended:		
Cash and Cash Equivalents (Note 15)	\$	4,108,238
Interest Receivable		25,613
Capital Improvement Bond Proceeds		
Receivable (Note 3)		<u>15,588,087</u>
Total Unexpended		<u>19,721,938</u>

Retirement of Indebtedness:

Cash and Cash Equivalents (Note 15)		236,375
Interest Receivable		<u>20,159</u>
Total Retirement of Indebtedness		<u>256,534</u>

Investment in Plant:

Land		1,628,558
Buildings and Improvements		71,425,356
Equipment		8,616,491
Library Books		4,750,741
Construction in Progress (Note 14)		<u>6,487,441</u>
Total Investment in Plant		<u>92,908,587</u>
Total Plant Funds		<u>\$112,887,059</u>

AGENCY FUNDS

Cash and Cash Equivalents (Note 15)	\$	104,213
Accounts Receivable (Note 13)		<u>382,783</u>
Total Agency Funds	\$	<u>486,996</u>

LIABILITIES AND FUND BALANCES

ENDOWMENT AND SIMILAR FUNDS

Fund Balances:		
Endowment - Restricted	\$	439,863
Quasi-Endowment - Unrestricted		<u>257,354</u>
Total Endowment and Similar Funds	\$	<u>697,217</u>

PLANT FUNDS

Unexpended:		
Accounts Payable	\$	74,096
Retainages Payable		437,545
Fund Balances:		
Restricted		17,585,953
Unrestricted, Designated		<u>1,624,344</u>
Total Unexpended		<u>19,721,938</u>

Retirement of Indebtedness:

Accrued Bond Interest Payable		76,018
Fund Balances - Restricted		<u>180,516</u>
Total Retirement of Indebtedness		<u>256,534</u>

Investment in Plant:

Bonds Payable (Note 4)		6,005,000
Capital Lease Obligations (Note 6)		31,612
Note Payable (Note 5)		476,830
Net Investment in Plant		<u>86,395,145</u>
Total Investment in Plant		<u>92,908,587</u>
Total Plant Funds		<u>\$112,887,059</u>

AGENCY FUNDS

Deposits Held for Others	\$	482,582
Accounts Payable		<u>4,414</u>
Total Agency Funds	\$	<u>486,996</u>

The accompanying notes are an integral part of this financial statement.

SOUTH CAROLINA STATE UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 2000

	CURRENT FUNDS			ENDOWMENT AND SIMILAR	PLANT FUNDS			TOTAL-
	UNRESTRICTED	RESTRICTED	LOAN FUNDS	FUNDS	UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	(MEMORANDUM (ONLY))
Revenues and Other Additions:								
Unrestricted Current Fund Revenues	\$56,935,987	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 56,935,987
State Appropriations (Note 2)	-	1,072,738	253,473	-	-	-	-	1,326,211
State Capital Improvement Bond Proceeds (Note 3)	-	-	-	-	17,500,000	-	-	17,500,000
Federal Grants and Contracts - Restricted	-	17,420,349	-	-	209,909	42,708	-	17,672,966
State Grants and Contracts - Restricted	-	769,758	80,500	-	-	-	-	850,258
Nongovernmental Grants and Contracts - Restricted	-	27,520	-	-	-	-	-	27,520
Nongovernmental Gifts - Restricted	-	200,000	-	-	-	-	-	200,000
Interest Income - Restricted	-	-	7,874	146	93,713	93,076	-	194,809
Endowment Income - Restricted	-	2,836	-	-	-	-	-	2,836
Interest and Fees on Student Loans	-	-	33,660	-	-	-	-	33,660
Expended for Plant Facilities (Including \$1,036,740 Charged to Current Funds Expenditures)	-	-	-	-	-	-	4,311,310	4,311,310
Retirement of Indebtedness	-	-	-	-	-	-	652,959	652,959
Student Tuition and Fees	-	-	-	-	-	699,883	-	699,883
Other Additions	-	18,438	-	6,566	-	-	-	25,004
Total Revenues and Other Additions	56,935,987	19,511,639	375,507	6,712	17,803,622	835,667	4,964,269	100,433,403
Expenditures and Other Deductions:								
Educational and General Expenditures	47,430,133	19,305,628	-	-	-	-	-	66,735,761
Auxiliary Enterprises Expenditures	8,160,902	-	-	-	-	-	-	8,160,902
Indirect Cost Recoveries Remitted to State	227,432	-	-	-	-	-	-	227,432
Indirect Costs Recovered	-	672,720	-	-	-	-	-	672,720
Loan Cancellations and Write-Offs	-	-	163,015	-	-	-	-	163,015
Provision for Uncollectible Loans	-	-	802,005	-	-	-	-	802,005
Administrative and Collection Costs	-	-	18,864	-	-	-	-	18,864
Expended for Plant Facilities (Including Noncapitalized Expenditures of \$2,272,822)	-	-	-	-	5,547,392	-	-	5,547,392
Retirement of Indebtedness	-	-	-	-	-	652,959	-	652,959
Interest on Indebtedness	-	-	-	-	-	396,515	-	396,515
Disposal of Plant Facilities	-	-	-	-	-	-	3,529,158	3,529,158
Total Expenditures and Other Deductions	55,818,467	19,978,348	983,884	-	5,547,392	1,049,474	3,529,158	86,906,723

SOUTH CAROLINA STATE UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 2000

	CURRENT FUNDS			ENDOWMENT AND SIMILAR	PLANT FUNDS			TOTAL-
			LOAN	FUNDS		RETIREMENT OF	INVESTMENT	(MEMORANDUM
	UNRESTRICTED	RESTRICTED	FUNDS	FUNDS	UNEXPENDED	INDEBTEDNESS	IN PLANT	(ONLY)
Transfers Among Funds - Additions/(Deductions):								
Mandatory - For Payment of Principal and Interest								
Education and General	(242,948)	-	-	-	-	242,948	-	-
Auxiliary Enterprise Funds - Housing	(451,008)	-	-	-	-	451,008	-	-
Nonmandatory: (Note 7)								
Transfers for Operations	600,000	-	-	-	-	(600,000)	-	-
Transfer from Unrestricted Current Funds for:								
Capital Projects	(1,277,009)	-	-	-	1,277,009	-	-	-
Debt Service	(357,752)	-	-	-	-	357,752	-	-
Transfer from Restricted Current Fund	-	(9,100)	-	9,100	-	-	-	-
Transfer from Endowment and Similar Funds	-	1,260	-	(1,260)	-	-	-	-
Transfer from Retirement of Indebtedness	-	-	-	-	625,084	(625,084)	-	-
Transfer from Unexpended Plant	-	-	-	-	(201,287)	201,287	-	-
Net Transfers Between Current Funds	<u>(21,843)</u>	<u>21,843</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Transfers	<u>(1,750,560)</u>	<u>14,003</u>	<u>-</u>	<u>7,840</u>	<u>1,700,806</u>	<u>27,911</u>	<u>-</u>	<u>-</u>
Net Increases (Decreases) for the Year	(633,040)	(452,706)	(608,377)	14,552	13,957,036	(185,896)	1,435,111	13,526,680
Fund Balances (Deficit), Beginning of Year, as Restated (Notes 22 & 23)	<u>(300,548)</u>	<u>795,385</u>	<u>2,629,944</u>	<u>682,665</u>	<u>5,253,261</u>	<u>366,412</u>	<u>84,960,034</u>	<u>94,387,153</u>
Fund Balances (Deficit), End of Year (Note 24)	<u>\$ (933,588)</u>	<u>\$ 342,679</u>	<u>\$ 2,021,567</u>	<u>\$ 697,217</u>	<u>\$ 19,210,297</u>	<u>\$ 180,516</u>	<u>\$ 86,395,145</u>	<u>\$ 107,913,833</u>

The accompanying notes are an integral part of this financial statement.

SOUTH CAROLINA STATE UNIVERSITY
Statement of Current Funds Revenues, Expenditures, and Other Changes
For the Year Ended June 30, 2000

	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>TOTAL</u>
Revenues:			
Student Tuition and Fees	\$17,075,969	\$ -	\$17,075,969
State Appropriations (Note 2)	27,186,470	1,072,738	28,259,208
Federal Grants and Contracts	680,780	17,223,584	17,904,364
State Grants and Contracts	-	761,063	761,063
Non-Governmental Grants and Contracts	44,786	27,209	71,995
Non-Governmental Gifts	558,110	200,000	758,110
Endowment Income	26,421	2,804	29,225
Sales and Services of Educational Activities	2,022,296	-	2,022,296
Sales and Services of Auxiliary Enterprises	8,677,645	-	8,677,645
Interest Income - Auxiliary Enterprises	10,878	-	10,878
Other Sources	<u>652,632</u>	<u>18,230</u>	<u>670,862</u>
Total Current Revenues	<u>56,935,987</u>	<u>19,305,628</u>	<u>76,241,615</u>
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	20,103,579	3,285,611	23,389,190
Research	572,372	2,062,649	2,635,021
Public Service	325,742	3,489,337	3,815,079
Academic Support	6,147,667	1,384,541	7,532,208
Student Services	7,561,872	226,699	7,788,571
Institutional Support	5,528,313	1,037,574	6,565,887
Operation and Maintenance of Plant	6,213,746	-	6,213,746
Scholarships and Fellowships	<u>976,842</u>	<u>7,819,217</u>	<u>8,796,059</u>
Total Educational and General Expenditures	<u>47,430,133</u>	<u>19,305,628</u>	<u>66,735,761</u>
Mandatory Transfers for Principal and Interest	<u>242,948</u>	<u>-</u>	<u>242,948</u>
Total Educational and General	<u>47,673,081</u>	<u>19,305,628</u>	<u>66,978,709</u>
Auxiliary Enterprises:			
Expenditures	8,160,902	-	8,160,902
Mandatory Transfers for Principal and Interest	<u>451,008</u>	<u>-</u>	<u>451,008</u>
Total Auxiliary Enterprises	<u>8,611,910</u>	<u>-</u>	<u>8,611,910</u>
Total Expenditures and Mandatory Transfers	<u>56,284,991</u>	<u>19,305,628</u>	<u>75,590,619</u>

SOUTH CAROLINA STATE UNIVERSITY
Statement of Current Funds Revenues, Expenditures, and Other Changes
For the Year Ended June 30, 2000

	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>TOTAL</u>
Other Transfers and Additions/(Deductions):			
Nonmandatory Transfers In	600,000	1,260	601,260
Nonmandatory Transfers Out	(1,634,761)	(9,100)	(1,643,861)
Net Transfers Between Current Funds	(21,843)	21,843	-
Indirect Cost Recoveries Remitted to the State General Fund	(227,432)	-	(227,432)
Excess (Deficiency) of Restricted Receipts Over Transfers to Revenues	<u>-</u>	<u>(466,709)</u>	<u>(466,709)</u>
 Total Other Transfers and Additions/ (Deductions)	 <u>(1,284,036)</u>	 <u>(452,706)</u>	 <u>(1,736,742)</u>
 Net Increases (Decreases) in Fund Balances	 <u><u>\$ (633,040)</u></u>	 <u><u>\$ (452,706)</u></u>	 <u><u>\$ (1,085,746)</u></u>

The accompanying notes are an integral part of this financial statement.

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for generally accepted accounting principles (GAAP) for all state governmental entities including colleges and universities. The financial statements of South Carolina State University have been prepared in accordance with GAAP, as outlined in Governmental Accounting Standards Board (GASB) Statement No. 15. That statement permits the entity to use the American Institute of Certified Public Accountants (AICPA) College Guide model. The AICPA College Guide model is the accounting and financial reporting guidance as defined by the AICPA Industry Audit Guide, *Audits of Colleges and Universities*, as amended by the AICPA Statement of Position (SOP) 74-8, *Financial Accounting and Reporting by Colleges and Universities*, as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by all applicable GASB pronouncements.

A summary of significant accounting policies follows.

Reporting Entity

The core of the financial reporting entity is the primary government, which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary government or entity that holds one or more of the following powers:

- (1) Determines its budget without another government's having the authority to approve and modify that budget.
- (2) Levies taxes or sets rates or charges without approval by another government.
- (3) Issues bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the University has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only the South Carolina State University.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Primary Entity

The University is a State-supported, coeducational institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total operating funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the University. The University was established as an institution of higher education by Section 59-127-10 of the Code of Laws of South Carolina. The University is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

The Board of Trustees, whose members are appointed by the Governor with the advice and consent of the Senate, is the governing body of the University. The Board administers, has jurisdiction over, and is responsible for the management of the University.

The accompanying financial statements present the financial position, changes in fund balances, and current funds revenues, expenditures, and other changes of only that portion of the funds of the State of South Carolina that is attributable to the transactions of South Carolina State University.

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when earned and become measurable and expenditures when materials or services are received or when incurred, if measurable. Unrestricted state appropriations are recognized as revenue when received and available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

Transfers are amounts moved between fund groups/subgroups to be used for the objectives of the recipient fund. Mandatory transfers are limited to those arising out of binding legal arrangements related to financing the educational plant (e.g., construction, repairs, debt amortization, and interest); agreements to match gifts and grants; or required matching of certain federal loan programs. Other interfund transfers are made at the discretion of the governing body and are reported as nonmandatory transfers.

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of alterations, renovations, and purchases and normal replacement of movable equipment and library materials; (2) mandatory transfers in the case of required provisions; and (3) transfers of a nonmandatory nature in all other cases.

Fund Accounting - University Funds

Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the institution or in accordance with directions issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups and subgroups. Accordingly, all financial transactions have been recorded and reported by fund group and subgroup.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, over which the governing board retains full control to use in achieving any of its institutional purposes.

All realized gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds which is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds, except for certain quasi-endowment income which is required to be added to the principal or when the endowment agreement requires the income to be added to the corpus. For these exceptions, income is reported in the endowment and similar funds group. For those endowment agreements which current earnings not used for the restricted purpose to be added to the corpus, the University records a mandatory transfer to move these monies to the endowment fund group.

All other unrestricted revenues are accounted for in unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds.

The *Current Funds* group includes those economic resources which are expendable for operating purposes to perform the primary missions of the University, which are instruction, research, and public service. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for auxiliary enterprises operations. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization. Unrestricted gifts are recognized

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting - University Funds (Continued)

as revenue when received and other unrestricted resources are recorded as revenue when earned. Receipts that are restricted are recorded initially as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for the restricted purposes during the current fiscal year and met all related requirements.

Current Funds Auxiliary Enterprises are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as unrestricted current funds. Assets, liabilities, and fund balances are combined with other unrestricted current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance. Auxiliary enterprises activities include housing, bookstore, food services, and student health services. The portion of the University's unrestricted current funds balance related to its auxiliary enterprises was \$1,042,899 at June 30, 2000.

The *Loan Funds* group accounts for the resources available for loans to students from donors, government agencies, and mandatory institutional matching grants. Loan funds have been divided into those provided by the federal government and those provided by other sources. Expenditures include costs of loan collections, loan cancellations, collectibility reserves, and administrative costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers.

The *Endowment and Similar Funds* group includes endowment funds, term endowment funds, and funds functioning as endowments (quasi-endowment). Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. All of the University's endowments require the income to be used for specified purposes. Quasi-endowment funds have been established by the governing board for the same purposes as permanent endowment funds, subject to any restrictions imposed by the donor of the resources, any unrestricted portion of the principal as well as income may be expended at the discretion of the governing board. The term "principal" is construed to include the original value of an endowment and subsequent additions and realized gains/losses attributable to investment transactions. The University currently has no term endowments.

The *Plant Funds* group consists of three self-balancing subgroups: (1) unexpended plant funds, (2) funds for retirement of indebtedness, and (3) investment in plant. The unexpended plant funds subgroup accounts for the resources derived from various sources and any debt related to unexpended resources to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets. Receipts legally designated solely for plant improvements or renewals and replacements are recorded directly in the University's plant funds as revenue. The retirement of indebtedness subgroup accounts for resources that are specifically assessed and/or specifically accumulated for interest and principal payments, debt service reserve funds, other debt service charges related to plant fund indebtedness, and federal interest subsidies. The investment in plant

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting - University Funds (Continued)

subgroup accounts for all long-life assets in the service of the University, all construction in progress, and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities.

The *Agency Funds* group accounts for the assets held on behalf of others in the capacity of custodian or fiscal agent; consequently, transactions relating to agency funds do not affect the operating statements of the University. They include the accounts of students, student organizations, and other groups directly associated with the University.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Indirect Cost Recoveries

The University records restricted current funds revenue for governmental grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to sponsored programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the University. Also, after January 1, 1999, federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund.

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave, except that faculty members do not accrue annual leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory holiday and overtime leave earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes an estimate for accrued sick leave and leave from the University's leave transfer pool for employees who have been approved as leave recipients under personal emergency circumstances which commenced on or before June 30, 2000. The University calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is recorded in unrestricted current funds. The net change in the liability is recorded in the current year in the applicable current funds functional expenditure categories.

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Plant

Physical plant and equipment, except for plant assets acquired prior to July 1, 1990, and equipment acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts from external parties. Plant assets acquired prior to July 1, 1990, are stated at historical cost when determinable or at estimated historical cost. Plant assets donated to the University by State agencies are stated at the cost of the agency which originally acquired the asset. Equipment additions purchased through installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges. Equipment under capital leases is stated at the lower of the present value of minimum lease payments, including the down payment, at beginning of the lease term or fair value at the inception of the lease. Resources for the payments of principal and interest on such contracts are recorded as transfers from current funds and the debt service expenditures are reported in the retirement of indebtedness plant funds subgroups as the installments are paid.

Land improvements, which are included as part of land, include parking lots, landscaping and other like improvements which are valued at cost and are capitalized. They do not include infrastructure assets such as streets, sidewalks, drainage systems, or lighting which are not capitalized.

Construction expenditures are recorded at cost in the unexpended plant funds when incurred and simultaneously capitalized at total expenditures less noncapitalized costs as construction in progress in the investment in plant funds subgroup. Upon completion of a project, the costs are capitalized in the appropriate asset accounts in investment in plant.

Construction in progress is valued at total cost less noncapitalized costs in the unexpended plant funds subgroup when the costs are incurred. Upon completion of the project, these capitalized costs are recorded as expenditures in unexpended plant funds and the asset and any associated debt simultaneously are transferred to the investment in plant funds subgroup and recorded in the appropriate asset accounts.

Library books and other library materials on computer data storage devices are recorded at cost when purchased or fair market value at the date of donation and are capitalized. Periodicals and microfilm are not capitalized.

Effective for fiscal year 2000 and future years, computer software costs to be capitalized include the external direct costs of materials and services consumed in developing or obtaining internal-use computer software; payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project; interest costs incurred when developing computer software; and costs to develop or obtain software that allows for access or conversion of old data by new systems. These costs are incurred during the application development stage. The costs of computer software developed or obtained for internal use is amortized on a straight-line basis. See Note 22 for additional information about the accounting change.

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Plant (Continued)

Current funds expenditures for acquisition of capital assets are simultaneously recorded in both the current funds expenditure accounts of the various operating departments and in the investment in plant funds subgroup.

The University capitalizes major additions and renovations to plant assets and qualifying equipment with a unit value in excess of \$5000 and a useful life in excess of one year and computer software with a unit value in excess of \$100,000 and a useful life in excess of one year. Under this policy, the University has no capitalized software.

When plant assets are sold, retired, or otherwise disposed of, the carrying value at cost, estimated historical cost, or fair market value at date of gift (for those donated by external parties), where applicable, is removed from the investment in plant subgroup. When plant assets donated to the University by other State agencies are sold, retired, or otherwise disposed of, the cost at which the agency originally acquired the asset is removed from the investment in plant subgroup. The values of library materials are removed annually. The University uses an independent book service index to value library material deletions. In accordance with practices followed by governmental educational institutions, depreciation on physical plant and equipment is not recorded.

Information Technology Costs

Non-capitalized information technology (IT) costs are budgeted, and reported by benefiting functional expenditure classification but those related to the college's missions of instruction, research, and public service are budgeted and reported in the academic support category and other IT costs are reported in institutional support.

Capitalized Interest

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore asset values in the investment in plant subgroup include such interest costs.

During fiscal year 2000, the University had no debt associated with capital projects and therefore no capitalized interest.

Bond Discounts, Premiums, and Issuance Costs and Amortization

Deferred charges consisting of bond discounts are reported in the asset section of the balance sheet of the retirement of indebtedness plant funds subgroup and are amortized as an element of interest on indebtedness over the lives of the bond issues using the straight-line method. Amortization of deferred charges is reported as an addition to interest charges and other charges on indebtedness.

Deferred Revenues and Unearned Student Revenues

The University reports deferred revenues for unearned student revenues, which consist primarily of student tuition and fees and room and board collected in advance for the summer and fall academic terms. Revenues are recognized in the period in which the sessions are predominantly conducted and services are provided or the semester for which the fee is applicable and earned.

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Student Deposits

Student deposits represent dormitory room deposits, security deposits for possible room damage and key loss, and library deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Fee Waivers

Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures. The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable current funds functional expenditure categories. State law provides that educational fee waivers may be offered to no more than two percent of the undergraduate student body.

Educational Activities and Other Activities Revenue

Revenues from sales and services of educational activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University also includes revenues from intercollegiate athletic activities. The University receives such revenues primarily from athletic programs, off-campus programs, the museum, radio station, Felton Laboratory School, planetarium, and various similar programs.

Prepaid Items

Expenditures for insurance, postage, and similar services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods.

Cash and Cash Equivalents

The amounts shown in the financial statements in University funds as "cash and cash equivalents" represent cash on deposit in banks, cash on deposit with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the internal cash management pool, see the deposits disclosures in Note 15.

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents (Continued)

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The University records and reports its deposits in the general deposit account at cost. The University reports its deposits in the special deposits accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the University's special deposit accounts is posted to its account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the University's accumulated daily interest income receivable to the total income receivable of the pool. Reported interest income includes interest earnings at the stated rate, realized gains/losses, and unrealized gains/losses arising from changes in the fair value of investments in the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the University's percentage ownership in the pool.

Intraentity Transactions and Balances

Transactions that would be treated as revenues or expenditures if they involved organizations external to the University are accounted for as revenues and expenditures in the funds involved. Reimbursement transactions for expenditures initially made by one fund that are applicable to another fund or a related party are recorded as expenditures in the reimbursing fund or, in the case of those for external parties, eliminated.

Total (Memorandum Only) Column

The total column on the statement of changes in fund balances is captioned "memorandum only" to indicate that it presents aggregations of financial statement line-items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present financial information in conformity with GAAP. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - STATE APPROPRIATIONS

The University is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year.

In addition to state appropriations revenue, pursuant to Proviso 1A.32., the University received \$261,000 of Education Improvement Act (EIA) funds from the State Commission on Higher Education for the recruitment of minority students to pursue teaching careers which is reported as state grants and contracts revenue in the restricted current funds group and the loan funds group.

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 2 - STATE APPROPRIATIONS (CONTINUED)

The original appropriation is the University's base budget amount presented in the General Funds column of Section 5J of Part IA of the 1999-2000 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2000:

Original Appropriation	\$21,867,011
State Budget and Control Board Allocations:	
Employee Base Pay Increases and Related	
Employee Benefits (Proviso 63C.10.)	641,831
Deferred Compensation Matching Funds	
(Proviso 72.48)	33,080
Supplemental Appropriation From 1999 Surplus	
State General Fund Revenues (Part IV of the	
2000 Appropriation Act) for:	
Business School Accreditation	500,000
Federal Transportation Grant Match	600,000
Department of Health and Environmental Control	
Health and Safety Audit Compliance	1,000,000
Appropriation Allocations from the State	
Commission on Higher Education:	
From Supplemental Appropriation from 1999 Surplus	
State General Fund Revenues (Part IV of the 2000	
Appropriation Act) for:	
Performance Funding	107,078
Access and Equity Competitive Grants	13,077
Need-Based Grants	17,230
Academic Endowment Match	13,298
From Capital Reserve Fund Appropriations (Joint	
Resolution 4201,H3697) for Performance Funding	1,335,404
From the Children's Education Endowment Fund for:	
Palmetto Fellows Scholarship	15,000
Need-Based Grants	413,408
For Life Scholarships	626,080
For Performance Funding (Proviso 5A.19)	755,734
For Academic Endowment Match	10,638
For African-American Loan Program	
(Proviso 5A.17)	280,000
For Access and Equity Desegregation Funding	
(Proviso 5A.6)	105,319
For Higher Education Partnership Assistance	
(HEAP) (from EIA funding)	1,020
Appropriation Transfer from the State Department	
of Education for the Felton Laboratory School	<u>204,000</u>
Total State Appropriations Revenue - Accrual Basis	28,539,208
Less: Higher Education Grant/Scholarship and Other	
Grant Funding	
Reported in Restricted Current Funds:	
State Appropriations	1,072,738
State Grants and Contracts	26,527
Reported in Loan Funds	<u>253,473</u>
Funding Reported in Unrestricted Current Funds	<u>\$27,186,470</u>

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS

In fiscal year 2000 and in prior years, the State authorized funds for improvements and expansion of University facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the University records the proceeds as revenue in the unexpended plant funds. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The University is not obligated to repay these funds to the State.

The total balance receivable for the undrawn portions of the authorizations is reported in the balance sheet as "capital improvement bond proceeds receivable." A summary of the activity in the balances available from these authorizations during the year ended June 30, 2000, follows:

<u>Act</u>	<u>Total Authorized</u>	<u>Amount Drawn in Prior Years</u>	<u>Amount Drawn in Fiscal Year Ended June 30, 2000</u>	<u>Balance Authorized June 30, 2000</u>
638 of 1988	\$ 642,500	\$ 634,580	\$ -	\$ 7,920
111 of 1997	5,600,000	3,032,956	1,350,733	1,216,311
28 of 1999	<u>17,500,000</u>	<u>-</u>	<u>3,136,144</u>	<u>14,363,856</u>
Total	<u>\$23,742,500</u>	<u>\$3,667,536</u>	<u>\$4,486,877</u>	<u>\$15,588,087</u>

NOTE 4 - BONDS PAYABLE

Bonds Payable

At June 30, 2000, bonds payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>June 30, 2000 Balance</u>
Student and Faculty Housing Revenue Bonds Series 1991A	4.5%-6.7%	06/01/12	\$3,710,000
Stadium Improvement Revenue Bonds Series 1993A	3.0%-5.5%	01/01/13	<u>2,295,000</u>
Total - Included in Investment in Plant Funds			<u>\$6,005,000</u>

The University receives interest subsidies from the U.S. Department of Education designated for the student and faculty housing revenue bonds. The various bond indentures restrict the use of particular revenue sources. Revenue received for dormitory and married student housing and any loan subsidies is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on the student and faculty housing revenue bonds. All stadium revenue which includes admission fees and special student fees is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on stadium improvement revenue bonds.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2000**NOTE 4 - BONDS PAYABLE*****Bonds Payable (Continued)***

The University is required to establish debt reserve funds for the purpose of repaying the student and faculty housing revenue bonds and stadium improvement revenue bonds. In lieu of cash and investments on deposit, the University has purchased a surety bond for each of the revenue bond issues which will satisfy the debt service requirements upon notice that there are insufficient funds to do so. Repayment of the principal and interest will be guaranteed by Municipal Bond Investors Assurance Corporation pursuant to its insurance policies through final maturity for each of these bonds.

For the stadium improvement revenue bonds, the University must maintain its admission fees and special student fees at amounts necessary to maintain certain specified funding requirements. For the student and faculty housing revenue bonds, the University must generate net revenues available for debt service of not less than 120 percent of debt service payments due in each bond year. The University fell \$609,544 short of meeting the student and faculty housing revenue bonds net revenue requirement.

In addition, the student and faculty housing and stadium improvement revenue bonds resolutions require the University to establish housing and stadium improvement funds for the purpose of building up and maintaining reasonable reserves for contingencies, improvements, expansions, and renovations of those facilities through deposits made annually each June 15 and December 15. These reserve balances are to be funded each fiscal year with the lesser of \$200,000 or 50 percent of the net fund balance. At June 30, 2000 the reserve balances of the stadium improvement fund and the housing improvement fund were \$1,191,595 and \$1,128,979 respectively. These funds are included in the restricted fund balance in unexpended plant funds.

The stadium improvement revenue bonds are subject to redemption prior to their maturity, at the option of the University, on or after January 1, 2003, in whole at any time or in part on any January 1 or July 1, upon thirty (30) days' notice, at par.

The student and faculty housing revenue bonds are subject to redemption prior to their maturity, at the option of the University, on or after June 1, 2001, in whole at any time or in part on any June 1 or December 1, upon thirty (30) days' notice, at par.

All of the bonds are payable in annual installments plus semiannual interest payments. Amounts including interest required to complete payment of the student and faculty housing revenue bond obligations as of June 30, 2000, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 220,000	\$ 234,528	\$ 454,528
2002	230,000	221,988	451,988
2003	245,000	208,648	453,648
2004	260,000	194,192	454,192
2005	275,000	178,463	453,463
2006 through 2012	<u>2,480,000</u>	<u>695,420</u>	<u>3,175,420</u>
Total Obligations	<u>\$3,710,000</u>	<u>\$1,733,239</u>	<u>\$5,443,239</u>

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 4 - BONDS PAYABLE

Bonds Payable (Continued)

Amounts as of June 30, 2000, including interest required to complete payment of the stadium improvement revenue bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 135,000	\$112,947	\$ 247,947
2002	140,000	107,413	247,413
2002	140,000	101,533	241,533
2003	155,000	95,512	250,512
2004	155,000	88,692	243,692
2005 through 2013	<u>1,570,000</u>	<u>398,755</u>	<u>1,968,755</u>
Total Obligations	<u>\$2,295,000</u>	<u>\$904,852</u>	<u>\$3,199,852</u>

Mandatory transfers from auxiliary enterprises revenue for debt service on student and faculty housing revenue and stadium improvement revenue bonds are reflected as transfers from unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds group.

On March 9, 1983, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments (principal and interest) on the old bonds. As a result, because the student faculty housing revenue bonds, Series 1972, are considered defeased, the liability for the defeased bonds has been removed from the investment in plant funds subgroup and the trust account assets are not included in these financial statements. At June 30, 2000, of bonds outstanding \$315,000 are considered defeased.

The University reported principal retirements and interest expenditures related to the bonds as follows for the year ended June 30, 2000.

<u>Bond Type</u>	<u>Principal</u>	<u>Interest</u>
Student and Faculty Housing Revenue	\$205,000	\$245,051
Stadium Improvement Revenue	<u>125,000</u>	<u>115,447</u>
Total	<u>\$330,000</u>	<u>\$360,498</u>

There was no interest capitalized as part of the cost of construction in progress in fiscal year 2000.

Debt Service Limitation On State Institution Bonds

S.C. Code of Laws Section 59-107-90 states that the maximum amount of annual debt service on state institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees (as defined by Code Section 59-107-30) for the preceding fiscal year. Tuition fees for the fiscal year ended June 30, 1999, were \$14,892,271, which results in a legal annual debt service limit at June 30, 2000, of \$13,403,044.

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 5 - NOTES PAYABLE

On November 24, 1997, the University acquired financing of \$1,200,000 through the Signet Leasing and Financial Corporation to retire an interim note payable to the State's installment purchase program. The proceeds of the interim note were used to upgrade the University's network infrastructure. Under the State Treasurer's Office's Master Lease Program, the First Union National Bank purchased the interim note in July 1998. The term of the secured note is for 48 months with a 4.85 percent annual interest rate and installments due quarterly beginning February 24, 1998. The note matures on November 24, 2001. Installments are paid from current funds resources which have been transferred to the retirement of indebtedness subgroup of the plant funds group for debt service on the note. As of June 30, 1998, the entire \$1,200,000 had been expended, and the related payable is presented in the investment in plant subgroup of the plant funds group.

The note is payable in quarterly installments plus interest. Amounts including interest required to complete payment of the note as of June 30, 2000, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$314,108	\$17,160	\$331,268
2002	<u>162,722</u>	<u>2,913</u>	<u>165,635</u>
Total Obligations	<u>\$476,830</u>	<u>\$20,073</u>	<u>\$496,903</u>

Payments for fiscal year 2000 were \$331,268 of which \$31,688 represented interest.

NOTE 6 - LEASE OBLIGATIONS

The University is obligated under various operating leases for the use of real property (land, buildings, and office facilities) and equipment. In addition, the entity is obligated under a capital lease agreement for the acquisition of equipment.

Future commitments for capital and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 2000, were as follows:

<u>Year Ending June 30</u>	<u>Capital Lease</u>	<u>Operating Leases</u>	
		<u>Real Property</u>	<u>Equipment</u>
2001	\$26,484	\$6,000	\$144,194
2002	6,620	2,500	47,987
2003	<u>-</u>	<u>-</u>	<u>11,471</u>
Total Minimum Lease Payments	33,104	<u>\$8,500</u>	<u>\$203,652</u>
Less: Interest	<u>1,492</u>		
Principal Outstanding	<u>\$31,612</u>		

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 6 - LEASE OBLIGATIONS (CONTINUED)

Capital Lease

During fiscal year 1998, the University entered into a 48-month, \$92,182 capital lease for grounds maintenance equipment. The capital lease is payable in monthly installments from current funds resources which have been transferred to the retirement of indebtedness subgroup of the plant funds group for debt service on the capital lease and expires on September 25, 2001. Capital lease expenditures for fiscal year 2000 were \$26,484, of which \$3,105 represented interest. The interest rate for the capital lease is 6.99 percent.

Certain capital leases provide for renewal and/or purchase options. Generally purchase options at bargain prices of one dollar are exercisable at the expiration of the lease terms.

Operating Leases

The University's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2001 through 2003. Certain operating leases provide for renewal options for a period of one year at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis.

Total operating lease expenditures in 2000 were \$197,778 for equipment. The University reports these costs in the applicable unrestricted current funds functional expenditure categories.

NOTE 7 - NONMANDATORY TRANSFERS

Debt service funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service as required by bond indentures and law. Tuition, fees, and revenues pledged for debt service when collected remain in the debt service accounts of the retirement of indebtedness plant funds subgroup until they are transferred by the State Treasurer into a general capital improvements funding account. For the student and faculty housing revenue bonds and the stadium improvement revenue bonds issued by the University, a written request for the transfer of funds in excess of required minimum balances is submitted by the University to the State Treasurer. As needed, monies are transferred from the general capital funding account to specific capital projects accounts. For the most part, institutions are authorized to make transfers for specific projects with notification to the State Treasurer. The University reports its general capital funding account in the unexpended plant funds subgroup and the unexpended balance thereof as unrestricted designated fund balance. Unexpended balances of the specific capital project accounts are reported as restricted fund balances in the unexpended plant funds subgroup. During fiscal year 2000, the University did not transfer funds to or from the general capital funding account in the unexpended plant funds subgroup.

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 7 - NONMANDATORY TRANSFERS (CONTINUED)

In fiscal year 2000, the University transferred \$600,000 of funds in excess of required debt service payments from the retirement of indebtedness subgroup to the unrestricted current funds for operations. In the current fiscal year, \$1,277,009 of unrestricted current funds was transferred to the unexpended plant funds subgroup to finance specific capital projects and \$357,752 was transferred from unrestricted current funds to the retirement of indebtedness plant funds subgroup to fund notes payable and capital lease debt service payments.

NOTE 8 - PENSION PLAN

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of South Carolina State University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full-service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 8 - PENSION PLAN (CONTINUED)

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 1999, the employer contribution rate became 9.50 percent which included a 1.95 percent surcharge to fund retiree health and dental insurance coverage. Effective January 1, 2000, the surcharge to fund retiree health and dental insurance coverage was increased to 2.16 percent to cover the cost of providing such services and the employer contribution rate became 9.71 percent. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2000, 1999, and 1998, were \$1,963,252, \$1,787,895, and \$1,796,066, respectively, and equalled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$59,542 in the current fiscal year at the rate of .15 percent of compensation.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55 can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1999, the employer contribution rate became 12.25 percent which, as for the SCRS, included the 1.95 percent surcharge. Effective January 1, 2000, the surcharge to fund retiree health and dental insurance coverage was increased to 2.16 percent to cover the cost of providing such services and the employer contribution rate became 12.46 percent. The University's actual contributions to the PORS for the years ending June 30, 2000, 1999, and 1998, were \$72,909, \$67,720, and \$67,328, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$1,452 and accidental death insurance contributions of \$1,452 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 8 - PENSION PLAN (CONTINUED)

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable current funds' functional expenditure categories to which the related salaries are charged.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates to SCRS and PORS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amounts of contributions stated as a percentage of covered payroll established by the State Budget and Control Board. Therefore, the University's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in the plans.

At retirement, employees participating in the SCRS or PORS receive additional service credit at a rate of 20 days equals one month of service for up to 90 days for accumulated unused sick leave.

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's four-year higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 1.95 percent from July 1, 1999 to December 31, 1999, and 2.16 percent from January 1, 2000 to June 30, 2000 from the employer in fiscal year 2000.

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 8 - PENSION PLAN (CONTINUED)

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$238,698 (excluding the surcharge) from the University as employer and \$189,693 from its employees as plan members. In addition, the University paid \$4,742 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable current funds' functional expenditure categories to which the related salaries are charged.

An Act passed in the last General Assembly Session, which had not been signed by the Governor as of June 30, 2000, will amend Chapter 1, Title 9, of the 1976 Code of Laws, relating to the South Carolina Retirement System effective July 1, 2000, with some provisions effective January 1, 2001. The amendment will enact the Teacher and Employee Retention Incentive Program, reduce from thirty to twenty-eight the years of creditable service required to retire at any age without penalty and make other changes to SCRS.

NOTE 9 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 20,100 State retirees meet these eligibility requirements.

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 9 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

The University recorded employer contributions expenditures within the applicable current funds' functional expenditure categories for these insurance benefits for active employees in the amount of \$2,005,616 for the year ended June 30, 2000. As discussed in Note 8, the University paid \$614,916 applicable to the 1.95 percent surcharge for July 1, 1999 to December 31, 1999 and the 2.16 percent surcharge for January 1, 2000 to June 30, 2000 included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

NOTE 10 - DEFERRED COMPENSATION PLANS

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

The State appropriated funds from unspent Fiscal Year 1998-1999 general fund appropriations above the ten percent set aside, for contributions to 401 accounts of eligible state employees whose salaries are funded from State General Fund appropriations. In addition, the 2000 Appropriation Act required agencies to match certain 401 contributions by employees whose salaries are funded from other applicable revenue sources. The appropriated 401 match was limited to \$300. To be eligible an employee must have met the following eligibility requirements:

1. The employee was a permanent full-time State employee for 24 continuous months as of July 1, 1999 and employed on the date and distribution and
2. The employee established a 401 account with annual contributions equal to the match (this requirement is not required for employees earning less than \$20,000.)

In August 2000, the agency made contributions from State appropriations and other applicable funding sources of \$118 in total to the 401 account for each eligible State employee for a total of \$33,512 for 284 University employees.

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 11- INVENTORIES

Inventories for internal use are valued at cost. Inventories for resale are valued at the lower of cost or market. The following is a summary by inventory category, cost determination method and value at June 30, 2000:

<u>Category</u>	<u>Method</u>	
Books	First-in, first-out	\$371,297
Retail Store	First-in, first-out	159,119
Food	First-in, first-out	21,465
Gasoline	First-in, first-out	<u>3,054</u>
		<u>\$554,935</u>

During FY 2000, the University liquidated the Warehouse Inventory, consisting of office and custodial supplies, and discontinued operations of a Central Supply Warehouse.

NOTE 12 - INTERFUND LIABILITIES AND BORROWINGS

For the most part, the University operates out of one cash account which is recorded in unrestricted current funds. At fiscal year-end, entries are made to properly reflect cash balances by fund group and subgroup and to report interfund liabilities for deficit cash balances in the State's cash management pool accounts by fund. In addition, during the year, certain interfund borrowings occurred. All of the amounts are payable within one year without interest. Individual interfund balances outstanding at June 30, 2000, were as follows:

	<u>Receivable</u>	<u>Payable</u>
Unrestricted Current Fund	\$3,014,280	\$ -
Restricted Current Fund	<u>-</u>	<u>3,014,280</u>
Totals	<u>\$3,014,280</u>	<u>\$3,014,280</u>

NOTE 13 - ACCOUNTS, STUDENT LOAN NOTES, AND OTHER RECEIVABLES

The University has the following significant and/or unique accounts receivable in its various fund groups and subgroups:

Unrestricted Current Funds:

Accounts Receivable:

Student Tuition and Fees	\$1,506,947
Auxiliary Enterprises Fees	<u>648,422</u>
	2,155,369
Less: Allowance for Doubtful Accounts	<u>588,467</u>

Student Accounts Receivable, Net \$1,566,902

Other Receivables \$ 80,658

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 13 - ACCOUNTS, STUDENT LOAN NOTES, AND OTHER RECEIVABLES (CONTINUED)

Loan Funds:

Notes Receivable:

Perkins Loan Program	\$1,018,721
Less: Allowance for Doubtful Accounts	<u>499,450</u>
Perkins Loan Program, Net	<u>519,271</u>
 Student Emergency Loan Fund #2	 1,155
Student Emergency Loan Fund	<u>(160)</u>
Student Loan Fund, Net	<u>995</u>
 African American Teacher Loan Program	 930,163
Less: Allowance for Doubtful Accounts	<u>9,610</u>
African American Teacher Loan Program, Net	<u>920,553</u>
 Education Improvement Act Loan Program	 386,793
Less: Allowance for Doubtful Accounts	<u>26,146</u>
Education Improvement Act Loan Program, Net	<u>360,647</u>

Total net notes receivable in loan funds was \$1,801,466 at June 30, 2000.

Agency Funds:

Accounts Receivable:

Due from S.C. Dept. of Vocational Rehab.	\$14,418
Due from SCSU Foundation	539
Due from Students	<u>4,006</u>

Accounts Receivable \$18,963

With minor exceptions, allowances for losses for student loan receivables and various accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current loan and account portfolios. At June 30, 2000, the allowances for student loan notes receivable, student tuition and fees, and auxiliary enterprises are valued at \$535,206, \$389,172, and \$199,295, respectively. Other receivables in unrestricted current funds include \$72,604 due from the South Carolina State University Foundation's use of University facilities and transfer of FY1999-2000 revenues. The Education Improvement Act (EIA) student loan notes receivable include principal of \$79,820 on which no interest is charged and for which an allowance for losses of \$5,326 was established.

NOTE 14 - CONSTRUCTION COSTS AND COMMITMENTS

The University has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that the University has sufficient resources available and/or future resources identified to satisfactorily complete the construction of such projects which are expected to be completed in varying phases over the next several years at an estimated total cost of \$39,969,289. Of the total cost, \$5,547,391 is

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 14 - CONSTRUCTION COSTS AND COMMITMENTS (CONTINUED)

unexpended at June 30, 2000. Of the total expended through June 30, 2000, the University has capitalized substantially complete and in use projects costing \$1,963,236 in the applicable plant asset categories. Of the unexpended balance at June 30, 2000, the University had remaining commitment balances of \$3,749,056 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. Major capital projects at June 30, 2000, which constitute construction in progress that are to be capitalized when completed are listed below.

<u>Project Title</u>	<u>Estimated Cost</u>	<u>Amount Expended</u>
1890 Extension Facilities	\$ 4,558,877	\$4,367,030
Hodge Hall Renovations	12,144,975	2,085,042
Camp Harry Daniels Renovation	600,000	25,140
New Living Learning Center	25,000	10,229
Resident Safety	<u>50,000</u>	<u>-</u>
Total	<u>\$17,378,852</u>	<u>\$6,487,441</u>

At June 30, 2000, the University had in progress other capital projects which are not to be capitalized when completed. These projects are for replacements, repairs, and/or renovations to existing facilities. Costs incurred to date on these projects amount to \$3,622,554 at June 30, 2000, and the estimated cost to complete is \$7,027,446.

The University anticipates funding all of its capital projects out of current resources, current and future bond issues, state capital improvement bond proceeds, private gifts, and student fees.

NOTE 15 - DEPOSITS AND INVESTMENTS

All deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain monies are deposited or invested with or managed by financial institutions and brokers.

The following schedule reconciles deposits and investments within the footnotes to the balance sheet amounts:

<u>Balance Sheet</u>		<u>Footnotes</u>	
Cash and Cash Equivalents	\$4,876,279	Deposits Held by State Treasurer	\$4,706,508
Investments	104,094	Other Deposits-Financial Institution	134,771
		Other Deposits-Loan Participation Deposit	35,000
		Investments Held by State Treasurer	95,900
		Other Investments	<u>8,194</u>
	<u>\$4,980,373</u>		<u>\$4,980,373</u>

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 15 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2000, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

As disclosed in Note 4, unexpended plant funds include \$2,320,574 restricted cash for the purpose of building and maintaining reasonable reserve for contingencies and for improvements, expansions and renovations of the facilities.

Other Deposits

Of the University's other deposits, \$134,771 is reported in unrestricted current funds at year-end in an account which is covered by \$200,000 federal depository insurance or by collateral held by the University's custodial bank in the University's name. However, the year-end balance exceeded the insurance. Loan funds includes \$35,000 restricted cash for a loan participation deposit.

The University's other deposits are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. There are three categories of deposit credit risk as follows:

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name. (Not held by the bank.)
- (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name
- (3) Uninsured or uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the entity's name.)

A summary of June 30, 2000, bank balances by risk category follows:

	<u>Category</u>			<u>Bank</u>	<u>Reported</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>	<u>Amount</u>
Cash Deposits	\$ <u>235,000</u>	\$ <u>425,726</u>	\$ <u>-</u>	\$ <u>660,726</u>	\$ <u>169,771</u>

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 15 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments Held by State Treasurer

The accounts classified as "Investments Held by State Treasurer" in the financial statements comprise investments held for the State agency and the State of South Carolina which are legally restricted and earnings thereon become revenue of the specific fund from which the investment was made. These investments are specific, identifiable investment securities.

Investments consist of Series 1894 Agricultural College stock with a carrying amount of \$95,900 held by the State Treasurer as Trustee until they mature in 2035 on which the State is required to pay the University 6 percent per year. Because there is no readily determinable fair value of these investments, they have been assigned a fair value equal to their historical cost value.

Other Investments

"Other investments" consist of investments in common stock, which are stated at fair value and include unrealized appreciation of \$6,566. Purchases and sales are accounted for on the trade date. Unrealized gains and losses on these investments have been recorded in the fund holding the investment. Earnings are recorded on an accrual basis.

The University's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the University's name. A summary of these investments at June 30, 2000, by category of credit risk follows:

	<u>Category</u>			<u>Fair</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Value</u>
Common Stock	<u>\$8,194</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$8,194</u>

The investment listed above was held throughout the fiscal year and the balance therein fluctuated minimally in excess of the fiscal year-end balance.

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2000

NOTE 16 - GIFTS

Gifts include resources donated to the University's for unrestricted or restricted institutional purposes except those gifts received as additions to permanently restricted net assets which are recorded in other support. Gifts are nonexchange transactions.

NOTE 17 - PLEDGES OF GIFTS

The University recognizes revenue from pledges when collected.

NOTE 18 - RELATED PARTIES

Certain separately chartered legal entities whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational program. Financial statements are not available for these entities. They include South Carolina State Educational Foundation (the Foundation), the S.T.A.T.E. Club, and the South Carolina State University Alumni Association. The activities of these entities are not included in the University's financial statements. However, the University's statements include transactions between the University and these related parties. In conjunction with its implementation of GASB Statement No.14, management reviewed its relationships with the entities described in this note. The University excluded these entities from the reporting entity because it is not financially accountable for them. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that project and other future GASB pronouncements, some or all of these parties may become component units of the University and/or part of the financial reporting entity. Various transactions occur between the University and these parties. A summary of these transactions and balances as of and for the year ended June 30, 2000, follows:

South Carolina State College Educational Foundation

The Foundation is a separately chartered corporation organized exclusively to receive and manage private funds for the exclusive benefit and support of the University. The Foundation's activities are governed by its Board of Directors. The University recorded non-governmental gifts receipts of \$671,275 from the Foundation in unrestricted current funds and restricted current funds for the fiscal year ending June 30, 2000. These funds were awarded for athletic scholarships and presidential scholarships. In addition, unrestricted current fund obligations of \$158,484 were also paid by the Foundation on behalf of the University for the athletics program for the current fiscal year. The Foundation reimburses the University for any purchases made by the University for the Foundation. These funds are primarily recorded in the restricted current fund as non-governmental gifts and revenues. See Note 13 regarding the \$539 receivable due from the Foundation and reported in agency funds.

The S.T.A.T.E. Club

The S.T.A.T.E. Club is a separately chartered entity organized to promote and support intercollegiate athletics at South Carolina State University. The S.T.A.T.E. Club's actions are governed by its Board of Directors. The Club had no transactions with the University for the fiscal year ended June 30, 2000, and did not require the time or services of any University employees.

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 18 - RELATED PARTIES (CONTINUED)

South Carolina State University Alumni Association

The South Carolina State University Alumni Association is a separately chartered entity organized to develop and maintain the spirit of the University; disseminate information; promote education and scholarship; and cement the bonds of fellowship and loyalty to the University. The Association's actions are governed by the Officers of the Association. This entity had no transactions with the University for the fiscal year ending June 30, 2000, and did not require the time or services of any University employees.

NOTE 19 - TRANSACTIONS WITH STATE ENTITIES

The University has significant transactions with the State of South Carolina and various State agencies.

Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; check preparation, banking, bond trustee, and investment services from the State Treasurer; and legal services from the Attorney General.

Other services received at no cost from the various offices of the State Budget and Control Board include pension plans administration, insurance plans administration, audit services, grant services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The University had financial transactions with various State agencies during the fiscal year and participated with the University of South Carolina and Clemson University in the administration of certain federal grants. Additionally the University received grants from divisions of State government. The University received \$239,716 in funds from the South Carolina Department of Education for the Bamberg, Calhoun, Orangeburg Math and Science HUB Program, which is reported as State grants and contracts revenue in the restricted current funds group. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans employee and employer contributions, insurance coverage, and telephone and interagency mail services. Significant payments were also made for unemployment and workers' compensation coverage for employees to the Employment Security Commission and State Accident Fund. The amounts of 1999 expenditures applicable to these transactions are not readily available. The University provided no services to other State agencies during the fiscal year. See Note 2 regarding State Appropriations and state grants and contracts revenue. As authorized by Section 1A.32 of the 1999-2000 Appropriation Act, the University received \$80,500 from the South Carolina Center for Teacher Recruitment for the Education Improvement Act Forgivable Loan Program. These funds are reported as State grants and contracts revenue in loan funds.

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 20 - CONTINGENCIES AND LITIGATION

The University is involved in a number of legal proceedings and claims with various parties which arose in the normal course of business and cover a wide range of matters including contractual issues, personal injury, and negligence. In some of these cases, the remedies sought or damages claimed are substantial. In the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these cases is reasonably possible. However, an estimated liability cannot be determined at this time. Therefore, an estimated liability has not been recorded.

The various federal programs administered by the University for fiscal year 2000 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Furthermore, there is no information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore, an estimated loss has not been recorded.

NOTE 21 - RISK MANAGEMENT

Insurance Coverage

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. The costs of settled claims and claim losses have not exceeded this coverage in any of the past three years. The University pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits.

State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 21 - RISK MANAGEMENT (CONTINUED)

Insurance Coverage (Continued)

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following University assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles, aircraft, and watercraft (inland marine);
4. Torts;
5. Business interruptions;
6. Natural disasters; and
7. Medical malpractice claims against covered infirmaries, clinics, hospitals, employees, and third- and fourth-year medical students.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. Also, the IRF purchases reinsurance for catastrophic property and medical professional liability insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in the IRF.

The University obtains coverage through the State Budget and Control Board Office of General Services for builder's risk insurance for losses arising from construction projects.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation with limits of \$100,000 per occurrence.

The University has reported insurance premium expenditures in the applicable functional expenditure categories for the current funds.

The University has not transferred the portion of the risk of loss related to insurance policy deductibles and policy limits, unreported claims, underinsurance, and co-insurance for coverage to a State or commercial insurer. The University has not reported an estimated claims loss expenditure and the related liability at June 30, 2000, based on the requirements of GASB Statements No. 10 and No. 30, which state that a liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 2000, and the amount of the loss is reasonably estimable. Such liabilities include an amount for incurred but not reported (IBNR) losses when it is probable a claim will be asserted. Claims liabilities when recorded are based on estimates of the ultimate cost of settling known but not paid claims and IBNR claims at June 30 (including the effects of inflation and other societal and economic factors) and using past experience adjusted for current trends and other factors that would modify past experience.

SOUTH CAROLINA STATE UNIVERSITY
Notes to Financial Statements
June 30, 2000

NOTE 21 - RISK MANAGEMENT (CONTINUED)

Insurance Coverage (Continued)

In management's opinion, except as disclosed in Note 20, claims losses in excess of insurance coverage are unlikely and, if incurred, would be insignificant to the University's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore, no loss accrual has been recorded.

NOTE 22 - ACCOUNTING CHANGES

Accounting principles include not only accounting principles and practices but also the methods of applying them.

Effective July 1, 1999, the University elected to reclassify the Intercollegiate Athletic Programs from Auxiliary Enterprises to Education and General after determining that Intercollegiate Athletic Programs are not self-supporting.

	<u>1999</u>		<u>2000</u>
	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>Actual Effect</u>
<u>Unrestricted Current Fund</u>			
<u>Revenues</u>			
Student Tuition and Fees	\$13,828,475	\$ 1,700,000	\$15,528,475
Sales and Services of Educational Activities	456,421	964,829	1,421,250
Sales and Services of Auxiliary Enterprises	11,228,667	(2,664,829)	8,563,838
			8,677,645
<u>Expenditures</u>			
Education and General:			
Student Services	3,066,791	3,419,764	6,486,555
Auxiliary	11,933,697	(3,419,764)	8,513,933
			8,160,902

Effective July 1, 1999, the University adopted the National Association of College and University Business Officers Advisory Report 99-1, *Accounting and Reporting for Nongovernmental Grants and Contracts and Gifts*, which modifies the *Financial Accounting and Reporting Manual for Higher Education (FARM)*. In previous years Private Gifts, Grants and Contracts were reported together. The two classifications have been separated to provide better disclosure and accountability for resources that are a result of donor activity and of resources that are the result of acquiring grants and contracts from nongovernmental entities including individuals. This change did not have an effect on the Fund Balance for the year.

	<u>1999</u>		<u>2000</u>
	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>Actual Effect</u>
<u>Unrestricted Current Fund</u>			
Private Gifts, Grants and Contracts	\$242,435	(242,435)	\$ -
Non-Governmental Grants and Contracts	-	217,860	217,860
Non-Governmental Gifts	-	24,575	24,575
			558,110

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2000

NOTE 22 - ACCOUNTING CHANGES (CONTINUED)

Effective July 1, 1999, the University adopted the National Association of College and University Business Officers Advisory Report 99-6, *Reporting Safety and Security Expenses by Higher Education*, which modifies the *Financial Accounting and Reporting Manual for Higher Education (FARM)*. Safety and security expenses are now reported in the Operation and Maintenance of Plant. In previous years such expenditures were reported as institutional support. This change did not have an effect on the Fund Balance for the year.

	<u>1999</u>			<u>2000</u>
	As Previously Reported	Adjustments	Pro forma Balance	Actual Effect
<u>Unrestricted Current Fund</u>				
Institutional Support	\$5,548,825	(764,302)	\$4,784,523	\$5,528,313
Operation and Maintenance of Plant	4,085,115	764,302	4,849,417	6,213,746

Effective July 1, 1999, the University adopted the National Association of College and University Business Officers Advisory Report 99-7, *Accounting and Reporting for Capitalization of Software*, which modifies the *Financial Accounting and Reporting Manual for Higher Education (FARM)*. This report adopted American Institute of Certified Public Accountants Statement of Position 98-1 *Accounting for Costs of Computer Software Developed or Obtained for Internal Use* for public not-for-profit higher education institutions. Effective July 1, 1999, the University implemented a policy which defines the nature of costs of internal use software to be capitalized and the cost and useful life thresholds for capitalization of such costs. The University incurred no software costs in the current or prior year that met capitalization criteria. This statement does not require restatement of prior period costs. Note 1 describes the University's policy for capitalizing computer software developed or obtained for internal use.

Effective July 1, 1999, the University changed its policy for capitalization of equipment and raised its valuation level to capitalize those assets with a unit value of \$5,000 and having a useful life in excess of one year. This change in capitalization policy resulted in a restatement adjustment of \$11,159,548 to the investment in plant subgroup beginning fund balance.

	<u>June 30, 1999</u>		
	As Previously Reported	Restatement Adjustment	As Restated
Investment in Plant Fund Balance	\$96,119,582	\$ (11,159,548)	\$84,960,034

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2000

NOTE 23 - PRIOR PERIOD ADJUSTMENTS

The University corrected the following errors in the application of accounting principles for which the beginning fund balance has been restated.

Generally Accepted Accounting Principles (GAAP) requires the accurate reporting of financial information. The University made corrections to reverse revenue recorded twice, record and correct student account receivables, correct capital lease principle and interest, and reclassify summer school II revenue as deferred revenue.

	<u>June 30, 1999</u>		
	<u>As Previously Reported</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
Unrestricted Current Fund Balance	\$ <u>728,383</u>	\$(<u>1,028,931</u>)	\$(<u>300,548</u>)

GAAP requires the accurate reporting of financial information. The University made corrections to deferred revenue that had been earned and receipted and to accounts receivables that were covered by nonmandatory transfers.

	<u>June 30, 1999</u>		
	<u>As Previously Reported</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
Restricted Current Fund Balance	\$ <u>952,231</u>	\$(<u>156,846</u>)	\$ <u>795,385</u>

GAAP requires the reporting of plant assets to include capital projects and not repair projects. The University incorrectly capitalized a repair project, Campus-wide Steam Distribution. The University did not reverse retainages payable for the 1890 Extension Facilities project.

	<u>June 30, 1999</u>		
	<u>As Previously Reported</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
Investment in Plant Fund Balance	\$ <u>97,621,445</u>	\$(<u>1,501,863</u>)	\$ <u>96,119,582</u>

GAAP requires the accurate reporting of financial information. The University after reconciling Loan Management System balances to the Financial Records System balances corrected prior year bad debt expense and loan balances.

	<u>June 30, 1999</u>		
	<u>As Previously Reported</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
Loan Fund Balance	\$ <u>2,138,192</u>	\$ <u>491,752</u>	\$ <u>2,629,944</u>

SOUTH CAROLINA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2000

NOTE 24 - DEFICIT FUND BALANCE

The unrestricted current fund reported a deficit fund balance of \$933,588. The deficit fund balance is attributable to the University's athletics and housing activities. At June 30, 2000, the University's athletic activity had a deficit fund balance of \$8,591,518. The deficit attributable to the University's housing activities, an auxiliary enterprise, was \$394,080.

Housing revenues during the current and past few years have not been sufficient to cover housing expenditures. As a result, fund deficits have accumulated. The University has developed and implemented plans to eliminate the deficit position. A five-year strategic plan has also been developed which will include capital improvements for housing facilities and fee increases over the plan period. These actions will help improve the housing financial position.

The cumulative fund balance in Athletics is a result of several years of negative fund results. Significant restructuring efforts during the past few years have resulted in cost reductions and some improvements in financial results, however yearly results still reflect fund deficits. Current efforts are focused on improving revenue performance through increased marketing of athletics programs and fund raising. Also, additional restructuring plans targeting costs have been approved. A combination of these actions will help improve the financial performance in athletics and begin the process of reducing the accumulated fund deficit.

AUDITOR'S COMMENTS

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

November 9, 2000

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
South Carolina State University
Orangeburg, South Carolina

We have audited the basic financial statements of South Carolina State University as of and for the year ended June 30, 2000, and have issued our report thereon dated November 9, 2000. Those financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

The management of the University is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the basic financial statements of South Carolina State University for the year ended June 30, 2000, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to express an opinion or provide assurance on the internal control. Accordingly, we do not express such an opinion or provide such assurance. With respect to the internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

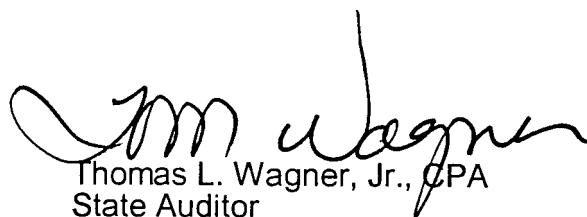
The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
South Carolina State University
November 9, 2000

We noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the basic financial statements. Our comments classified as reportable conditions are reported in Section B of the Auditor's Comments section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that none of the reportable conditions described above is a material weakness.

These conditions were considered in determining the nature, timing, and extent of audit tests to be applied in our audit of the basic financial statements of the University as of and for the year ended June 30, 2000, and this report does not affect our report on the financial statements dated November 9, 2000.

This report is intended solely for the information and use of the Governor and of the governing body and management of the University and is not intended to be and should not be used by anyone other than these specified parties.



Thomas L. Wagner, Jr., CPA
State Auditor

SECTION A – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Auditor's Comments section of the State Auditor's Report on the University for the fiscal year ended June 30, 1999, and dated October 29, 1999. We determined that the University has taken adequate corrective action on each of the findings except for the following which have been repeated in this report:

FY 1999 Comment Title

Bond Resolution Requirement -
Housing Net Revenues

Auxiliary Enterprises

Disbursement Voucher Processing -
Voucher Payments

Payroll Processing Procedures -
Terminated Employees

Leave Accounting Procedures

Leave Liability Calculation-

FY 2000 Comment Title

Bond Resolution Requirement –
Housing Net Revenues

Auxiliary Enterprises

Disbursement Voucher Payments

Payroll Processing Procedures –
Terminated Employees

Payroll Processing Procedures –
Terminated Employees

Payroll Processing Procedures –
Leave Liability

SECTION B - REPORTABLE CONDITIONS

DISBURSEMENT VOUCHER PAYMENTS

We tested a sample of 60 University disbursement vouchers and found that four cash disbursement vouchers totaling \$1,292 were not paid within 30 working days. The accounts payable department did not process these vouchers timely because various University departments did not consistently document the date the procured items were received. These vouchers were paid between 52 working days and 105 working days after the goods were received. Section 11-35-45 of the 1976 South Carolina Code of Laws, as amended, requires payment for goods and services within 30 working days of receipt of the goods or services. Furthermore, late payments are in violation of University policy, which requires prompt payment of obligations. (A similar comment was described in the Auditor's Comments section of the State Auditor's Report on the University for the fiscal year ended June 30, 1999, and dated October 29, 1999.)

We recommend the University develop and implement procedures to ensure that University departments document the date goods and services are received and that departments submit completed documents to the Accounts Payable department timely.

LOAN FUNDS

We found loan balances in LMS (Loan Management System) to be inaccurate due to the following:

1. Loan amounts are not canceled in LMS for African American Teacher (AAT) and Education Improvement Act (EIA) loans and scholarships for students who have partially fulfilled their teaching obligation. LMS currently does not allow for partial cancellations of AAT and EIA loans. Therefore, these loans can only be canceled in LMS after the borrower has completely fulfilled his entire obligation.

2. Old or immaterial student loan amounts are not written-off. The University has established a parameter for automatic write-off of amounts under \$1.00. This parameter does not adequately cover all the loans that are uncollectible.
3. Stipends listed on the signed loan contracts were not recorded in LMS for two borrowers in our sample. The University failed to record the full amount of the signed loan contracts in LMS. In previous years, policies were unclear as to whether stipends should be recorded in LMS.

Generally accepted accounting principles require that receivable amounts be properly stated for financial statement presentation. To accomplish this, we recommend that the University track loan amounts eligible to be canceled in LMS and record an adjusting entry to FRS (Financial Reporting System) at year end. In addition, the University should establish parameters to capture and write-off loans deemed uncollectible. Finally, the University should review its records to ensure that correct contract amounts were recorded in LMS for all borrowers who received stipends.

PAYROLL PROCESSING PROCEDURES

Insurance Deductions

We selected a payroll sample of 60 transactions. Thirty-four of the 60 transactions included insurance withholding deductions. In 9 of the 34 transactions tested, State-sponsored insurance deductions did not match the employee authorization forms.

The University did not adequately reconcile its insurance billings to amounts deducted from employees' pay for State-sponsored insurance and did not update employee files with new insurance authorization forms.

As a result, several University employees owe the University money for health benefits they received but did not pay for and others are due refunds because they were overcharged for the benefits they selected.

We recommend that the Personnel Department perform quarterly reconciliations of its insurance billings to the amounts deducted from employees' pay in order to detect and correct errors in a timely manner.

Other Deduction Forms

In 4 of the 60 transactions selected for testing, documents found in Personnel and Payroll files did not support recorded payroll withholding amounts. In 14 of the 60 transactions, employment verification (I-9) forms were incomplete and were not certified by Personnel. In 5 of the 60 transactions, 19 forms were not included in employee personnel files.

The University did not update employee files with new authorization forms for payroll deductions. The University has not monitored its personnel files for completeness and accuracy.

Employees may be receiving incorrect pay because erroneous or unauthorized amounts are deducted from their paychecks. In addition, controls are weakened when employee identification and verification forms for employment are not maintained.

Both Personnel and Payroll should perform periodic review of all deductions and employee files. In addition, the University should review all personnel files for completeness and accuracy.

Performance Evaluations

In 15 of 60 transactions selected for payroll testing, there was no evidence that evaluations were completed for permanent, non-faculty employees. (Of the 60 transactions, 19 included permanent, non-faculty employees.) The supervisor from each respective department did not perform current annual evaluations due to oversight or neglect. Therefore, employees did not receive feedback on their performance and the University did not document written evidence to substantiate possible raises or corrective actions necessary.

South Carolina State University's Employee Performance Management System Directive #103-96 specifies that all permanent employees must be evaluated annually. We recommend that the University evaluate employees annually.

Payments to Employees Terminating Employment

The sample of 25 terminated employees included payment to one employee for one full pay period beyond his resignation date. The University received the employee's resignation letter too late to prevent the check from being printed, which caused an employee to receive money not due him/her. We also noted three of 25 employees were overpaid because leave without pay (LWOP) hours were not taken into account when calculating the employees' regular pay. LWOP hours were not deducted because the employees' supervisors did not submit leave request sheets in time to ensure correct processing of the employees' final payroll checks. (A similar comment was described in the Auditor's Comments section of the State Auditor's Report on the University for the fiscal year ended June 30, 1999 dated October 29, 1999.)

South Carolina State Code of Laws Section 8-11-30 does not allow for the payment or receipt of salary not due. We recommend that Personnel develop and implement procedures to ensure compliance with the South Carolina State Code of Laws rules and regulations regarding compensation. In addition, the University should attempt to recover the overpayments.

Labor Distribution

One of 60 transactions included an account number charged by Payroll that did not match Personnel forms for salary accounts. For six other transactions, the source of the funds on the employee profiles maintained by Personnel did not match the account codes charged by Payroll. Incorrect account numbers were used because the University failed to review and update its records. Also, the University did not update employee profile reports that showed source of funds.

Generally accepted accounting principles (GAAP) require that amounts be properly reported in accounts for financial statement presentation. We recommend that employee profiles be updated annually. In addition, the University should review accounting/budget codes to ensure salary charges are correctly posted to the proper codes.

Leave Liability

Seventeen of 25 employees had incorrect annual leave balances as of 6/30/00. Three of 25 employees had incorrect salary information needed to determine annual leave amounts due them. One of 25 employees had erroneous information contained on their employee profile that did not agree to his/her personnel files. We noted that the Personnel Department had started inputting leave data in its new leave system in May. These errors occurred because there was no independent verification of the data to ensure clerical accuracy of the

input. The errors noted in our sample resulted in an overstatement of \$1,236 in the leave liability account. (A similar comment was described in the Auditor's Comments section of the State Auditor's Report on the University for the year ended June 30, 1999 and dated October 29, 1999.)

Generally accepted accounting principles (GAAP) require that amounts be properly reported for financial statement presentation. Also, paragraph C under "Holidays and Leave" of the SCSU Employee Manual states that "OHRM shall keep a record which accurately reflects leave accrued and taken by all employees." We recommend that the University properly state leave liabilities, abide by the SCSU Employee Manual, and enforce rules and regulations regarding payment of annual leave.

BANK RECONCILIATIONS

Our audit showed that the University writes checks from three main bank accounts and reconciliations of these accounts disclosed the following deficiencies:

1. The University prepared monthly account reconciliations, but the amounts listed as outstanding checks were not supported by accurate documentation. The University computed an estimated amount for outstanding checks using totals for checks written and for checks clearing the banks. The detailed lists of checks outstanding did not reconcile to the computed totals.
2. The outstanding check detailed lists included items as old as October 1994.
3. The bank reconciliations included reconciling items that have been repeated for as long as eleven months.

4. The outstanding check lists (prepared by the controller's office) included checks shown as outstanding which had previously been "voided" by the accounts payable department. The checks had been retained by the accounts payable department and had not been canceled or defaced. The controller's office was not aware that the checks were maintained by accounts payable.

Failure to reconcile all general ledger accounts to accurate supporting documentation in a timely manner could result in inaccurate financial information. Likewise, proper reconciliation procedures require that all reconciling items be addressed and corrected in a timely manner.

We recommend the University generate monthly, an accurate list of outstanding checks for each of the three main bank accounts and ensure that the monthly bank reconciliations are properly reconciled to accounting records and support documentation. The outstanding check list should be reviewed and old, stale outstanding checks should be written-off. If the University does not have a policy for reviewing and writing-off old outstanding checks, we recommend one be developed and implemented. When completing the reconciliations, any reconciling items should be reviewed so that proper corrective action can be taken in a timely manner. Finally, we recommend the University develop procedures to ensure that voided checks are properly cancelled and the controller's office is promptly notified.

BOND RESOLUTION REQUIREMENT

The bond resolution for the Student and Faculty Housing Revenue (SFHR) bonds requires that housing net revenues be at least 120% of the annual bond principal and interest payments. The bond resolution defines net revenues as total revenues less expenditures. In order to meet this requirement, for fiscal year 2000, the University's net housing revenues

would have to equal at least \$541,209. Fiscal year 2000 net revenues (deficit) for housing operations were (\$68,335). Therefore, the University fell \$609,544 short of meeting the SFHR bond resolution requirement. (A similar comment was described in the Auditor's Comments section of the State Auditor's Report on the University for the fiscal year ended June 30, 1999 and dated October 29, 1999.)

We recommend that the University closely monitor housing net revenues and take the necessary steps to ensure that the SFHR bond resolution requirements are met.

AUXILIARY ENTERPRISES

An auxiliary enterprise is an entity that exists to furnish goods or services to students, departments, faculty, or staff, and charges a fee directly related to, although not necessarily equal to, the goods and services. We noted during testing that two auxiliary enterprises were not self-supporting: Housing and Dining services.

Paragraph 6.22 of Audits of Colleges and Universities Industry Audit Guide (Audit Guide) states that the distinguishing characteristic of auxiliary enterprises is that they are managed as essentially self-supporting activities. Further, the Audit Guide states that intercollegiate athletics should be classified as an auxiliary enterprise only when they are essentially self-supporting. Section 72.18 of Part 1B of the 2000 Appropriation Act states that fees applicable to student housing, dining halls, student health services, parking facilities, laundries, and all other personal subsistence expenses shall be sufficient to fully cover the total direct operating and capital expenses of providing such facilities and services over their expected useful lives.

Two of the University's auxiliary enterprises, Dining and Housing services, did not comply with the above criteria. The ratio of revenues to expenditures for Dining Services and Housing in fiscal year 2000 were 85% and 98%, respectively. In the prior fiscal year, Dining Services were self-sufficient, while the Housing ratio was 94%. (A similar comment was described in the Auditor's Comments section of the State Auditor's Report on the University for the fiscal year ended June 30, 1999 and dated October 29, 1999.)

Again, we recommend that the University increase fees and/or reduce expenditures for both departments in order to comply with the above requirements.

MANAGEMENT'S RESPONSE

1999-2000 AUDIT RESPONSES

Finding #1 Disbursement Voucher Payments

Recommendation *We recommend the University develop and implement procedures to ensure that University departments document the date goods and services are received and that departments submit completed documents to the Accounts Payable department timely.*

Response We agree with this recommendation. The Shipping & Receiving Office monitor receipt of goods by departments and submission of trailer documents to the Accounts Payable department.

Finding #2 Loan Funds

Recommendation *We recommend that the University track loan amounts eligible to be cancelled in LMS and record an adjusting entry to FRS at year end. The University should establish parameters to capture and write-off loans deemed uncollectible. The University should also review its records to ensure that correct contract amounts were recorded in LMS for all borrowers who received stipends.*

Response We concur with the recommendation in total. The LMS Staff will prepare quarterly data on cancellations to be recorded in the Financial Records System. The Collection Staff will use the current U.S. Department of Education write-off parameter of \$25 for loans deemed uncollectible. All EIA loans are being verified and entered at the contract amount.

Finding #3 Payroll Processing Procedures

Recommendation *We recommend that the Personnel Department perform quarterly reconciliations of its insurance billings to the amounts deducted from employees' pay in order to detect and correct errors in a timely manner. Also, employee files are reviewed for completeness, evaluate employees annually, update employee profiles annually, and properly state and enforce leave liability.*

Response The University agrees with this recommendation. The Personnel Department is currently reviewing internal procedures and staffing to comply with all recommendations.

Finding #4

Bank Reconciliations

Recommendation *We recommend the University generate monthly accurate list of outstanding checks and develop procedures to ensure that voided checks are properly cancelled and the controller's office is promptly notified.*

Response We concur with the above recommendations. The Controller's Office is working with the Information Technology staff to address and remedy programming concerns.

Finding #5

Bond Resolution Requirement

Recommendation *We recommend that the University closely monitor housing net revenues and take the necessary steps to ensure that the SFHR bond resolution requirements are met.*

Response We agree with this recommendation.

Finding #6

Auxiliary Enterprises

Recommendation *We recommend the University increase fees and/or reduce expenditures for Dining and Housing services in order to comply with self-supporting criteria.*

Response The University is investigating and researching privatization of its housing operations to reduce expenditures.